

**Charlotte Public Schools
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Charlotte Public Schools
Charlotte, Michigan
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June 30, 2007

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Charlotte Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charlotte Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007 on our consideration of Charlotte Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charlotte Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 15, 2007

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

This section of Charlotte Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Charlotte Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Charlotte Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds, Debt Service Funds, 1999 Bond Project Fund and the 2002 Bond Project Fund, collectively as other nonmajor governmental funds. The remaining statements, the statement of fiduciary net assets, and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service, Athletics, Performing Arts and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative management approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- A board policy which requires a balanced budget with a fund balance goal of 12 percent of annual expenditures.
- The establishment of fund balance designation at the fund financial statement level for future technology replacement.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the District's eight employee groups.
- Utilization of modern business management techniques such as the use of business plans and monthly monitoring of operational systems and financial reporting for district support functions.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2007.

Condensed Statement of Net Assets as of June 30, 2007 and 2006		
	Governmental Activities 2007	Governmental Activities 2006
Assets		
Current and other assets	\$ 9,771,698	\$ 9,815,929
Capital Assets	<u>57,976,853</u>	<u>59,727,867</u>
Total Assets	67,748,551	69,543,796
Liabilities		
Current Liabilities	7,341,881	7,159,450
Noncurrent Liabilities	<u>59,074,480</u>	<u>59,633,240</u>
Total Liabilities	66,416,361	66,792,690
Net Assets		
Invested in capital assets, net of related debt	(2,135,358)	(941,047)
Restricted for debt service	207,799	-
Unrestricted	<u>3,259,749</u>	<u>3,692,153</u>
Total Net Assets	\$ 1,332,190	\$ 2,751,106

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Analysis of Financial Position:

As detailed above, the District shows a positive total net asset value of \$1,332,190 for the fiscal year ended June 30, 2007. This statement has been affected by the following factors:

- Major construction projects became necessary to replace worn out facilities to meet the needs of students. Construction of new facilities and major modifications to other facilities began in 1999 and continued through the 2006-2007 year.
- Significant debt, (\$62.8 million) was incurred by the District in 1999 and 2002 to pay for the facility modification projects.

Results of Operations:

For the fiscal year ended June 30, 2007 and 2006, the district-wide results of operations were:

Condensed Statement of Activities Year Ended June 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program Revenues		
Charges for Service	\$ 1,549,089	\$ 1,557,022
Operating and Capital Grants	2,566,685	2,476,277
General Revenues		
Property Taxes	6,353,926	5,976,860
State School Aid-unrestricted	21,098,630	21,058,411
Other	555,068	961,354
Total Revenues	32,123,398	32,029,924
Functions/Program Expenses:		
Instruction	15,828,315	15,319,110
Supporting services	8,700,516	8,855,415
Community services	1,134,590	1,123,818
Food service	1,077,749	1,129,386
Athletics	571,740	556,303
Interest on long-term debt	3,022,935	3,378,340
Other	689,027	751,148
Unallocated depreciation	2,517,442	2,454,107
Total Expenses	33,542,314	33,567,627
Change in Net Assets	\$ (1,418,916)	\$ (1,537,703)

Analysis of Results of Operations:

During fiscal year ended June 30, 2007, the District's net assets decreased by \$1,418,916. Several factors which helped cause the reduction are discussed in the following sections.

A. Governmental Fund Operating Results

The District's expenditures for governmental fund operations exceeded revenues from governmental fund operations by \$272,934 for the fiscal year ended June 30, 2007. Further discussion of the District's operating results is available in the section entitled "Results of 2006-2007 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2006-2007, district assets depreciated in the amount of \$2,517,442 and an additional \$766,428 in capital assets were purchased, to be depreciated in the future. This caused a net reduction in net district assets of \$1,751,014.

C. Long-Term Debt Activities

The District reduced its long-term debt obligation during 2006-2007 by amortizing deferred amounts and making principal payments amounting to \$1,397,010. Additional debt of \$840,307 in the form of principal and interest accrued on outstanding debt was incurred by the District during the fiscal year through the State of Michigan School Bond Loan Fund and accrued severance pay was increased during the year by \$5,539.

Results of 2006-2007 Operations

During fiscal year ended June 30, 2007, the District net assets decreased by \$1,418,916. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Charlotte Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$40,052 for the fiscal year ended June 30, 2007. The General Fund as of June 30, 2007, had a fund balance of \$2,983,694 or 11.1% of expenditures and other financing uses for the 2006-2007 fiscal year. The School District made approximately \$1,728,000 in budget reductions in order to balance the 2007-2008 fiscal year and most likely will have to continue these reductions in subsequent years unless funding from the State of Michigan improves.

B. Debt Service Fund Operations

The Debt Service Funds consist of four separate debt funds as follows: 1999 Debt, 2002 Debt, 2005 Debt, and 2006 Debt. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2007, the Debt Service Funds had \$691,744 in fund equity available for future bond payments.

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2007, the School District borrowed \$586,165 on the outstanding balance and an additional \$254,142 accrued in interest on the outstanding balance. The School District has a total obligation of \$5,793,943 to pay back to the Michigan School Bond Loan Fund including interest. The District also had Durant resolution bonds and accrued severance pay outstanding at June 30, 2007, which totaled \$318,533. The District paid principal of \$550,000 to leave \$12,815,000 outstanding on the 2002 School Building and Site General Obligation bonds at year-end. The District also paid \$850,000 on the 1999 bonds and \$75,000 on the 2005 bonds to leave outstanding balances at year-end on these bonds of \$1,850,000 and \$33,555,000 respectively. A detailed presentation of the District's long-term debt is presented in Note E of the notes to the financial statements.

C. School Service Funds

The Charlotte Public Schools also has school service funds that include the following: Food Service Fund, Athletics Fund and Performing Arts Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2006-2007 the Food Service Fund had revenues of \$1,147,865 and expenditures of \$1,077,749. In addition, the Food Service Fund transferred \$59,661 to the General Fund to reimburse overhead costs. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$154,250.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2006-2007 the Athletics Fund had revenues of \$195,938 and expenditures of \$571,740. The Athletics Fund generated \$195,938 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$330,582 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$44,985.

The Performing Arts Fund is a fund that reports activities of the professional performances at the Charlotte Performing Arts Center, including facility rentals. In 2006-2007 the Performing Arts Fund was generated with revenues of \$229,032 and had expenditures of \$172,955. In addition, the Performing Arts Fund transferred \$18,220 to the General Fund to reimburse applicable costs. At the conclusion of its third year of operation in 2006-2007, the Performing Arts Center had a fund balance of \$38,139.

D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$1,751,014 during the fiscal year. This can be summarized as follows:

	Balance June 30, 2006	Net Change	Balance June 30, 2007
Capital assets	\$ 80,022,001	\$ 91,038	\$ 80,113,039
Less: accumulated depreciation	(20,294,134)	(1,842,052)	(22,136,186)
Net investment in capital outlay	<u>\$ 59,727,867</u>	<u>\$(1,751,014)</u>	<u>\$ 57,976,853</u>

In 1999, Charlotte Public Schools voters approved a \$40,660,000 general obligation bond issue. In 2001, another general obligation bond issue totaling \$22,175,000 was approved by voters. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities.

IMPORTANT ECONOMIC FACTORS**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count
- c. The District's nonhomestead property valuation

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Charlotte Public Schools foundation allowance was \$7,085 per student for the 2006-2007 school year. This is an increase of \$210 from Charlotte Public Schools 2005-06 foundation allowance of \$6,875 per student.

C. Student Enrollment

The District's student enrollment for the fall count of 2006-2007 was 3,290 students. The District's enrollment decreased from the prior school year's Fall student count.

The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2006-2007	3,290	(123)
2005-2006	3,413	38
2004-2005	3,375	16
2003-2004	3,359	23
2002-2003	3,336	8
2001-2002	3,328	24

D. Property Taxes levied for General Operations (General Fund Nonhomestead Taxes)

The District levies 18.0000 mills of property taxes for operations (General Fund) on Nonhomestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's nonhomestead property tax revenue for 2006-2007 fiscal year was \$2,482,031. The nonhomestead tax revenue increased by 6.8% over the prior year.

In June 2003, the District was successful in passing a Headlee Ballot Proposal which will have the effect of allowing the District to levy during the succeeding five years the full 18 mill nonhomestead millage for operations as originally approved by voters in 1996. The 18 mill levy was renewed in May of 2006 for a period of ten years.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and nonhomestead.

For 2006-2007 the District's debt millage levy was 7.59 mills, which generated revenue of \$3,769,951.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	26,879,683	26,976,710	26,763,633	.43%	.79%
2005-2006	25,948,057	26,380,017	26,386,406	(1.7%)	0%

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	26,879,683	26,715,844	26,723,581	(.58%)	.03%
2005-2006	25,948,057	26,440,364	26,491,985	1.9%	.2%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Charlotte Public Schools amends its budget periodically during the school year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 26,879,683	100.0
Total Expenditures Final Budget	<u>26,976,710</u>	<u>100.36</u>
Increase in Budget Expenditures	<u>\$ 97,027</u>	<u>.36</u>

The District's actual expenditures were less than the final budget by \$213,077 or .79 percent.

Some of the significant changes in expenditure budgets for the year include:

- Basic program costs increased by \$202,083.
- Total added needs costs decreased by \$135,693.
- Student service costs were increased by \$24,643.
- Instructional staff costs increased by \$35,801.
- General administration costs increased by \$39,387.
- Business services costs were increased by \$50,322.
- Operations and maintenance was decreased by \$66,039.
- Community services was increased by \$52,042.

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2007****Revenue Change from Original to Final Budget:**

		<u>Percent</u>
Total Revenues Original Budget	\$ 26,879,683	100.0
Total Revenues Final Budget	<u>26,715,844</u>	<u>100.61</u>
Increase in Budget Revenues	<u>\$ 163,839</u>	<u>.61</u>

The District's final actual general fund revenues differed from the final budget by \$7,737, a variance of .03% from the final budget.

The Final revenue budget reflects the following changes from the Original Budget.

- State aid was decreased by \$885,795, due to decreased student count.
- Federal funding for grants was increased by \$42,804.
- Property tax levy revenue increased by \$392,395 when adjusting from an estimate to actual of taxable property valuations.
- Incoming transfers increased by \$208,056

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Charlotte Public Schools, 378 State Street, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

Charlotte Public Schools

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,801,321
Investments	124,715
Accounts receivable	28,147
Taxes receivable	122,275
Due from other governmental units	4,172,908
Inventories	21,892
Prepays	57,510
	<hr/>
Total current assets	9,328,768
Noncurrent assets	
Deferred charges, net of amortization	442,930
Capital assets not being depreciated	220,496
Capital assets, net of accumulated depreciation	57,756,357
	<hr/>
Total noncurrent assets	58,419,783
	<hr/>
TOTAL ASSETS	67,748,551
LIABILITIES	
Current liabilities	
Accounts payable	178,670
Accrued payroll	1,431,796
Other accrued liabilities	992,485
Due to other governmental units	473,558
Accrued interest payable	436,327
Unearned revenue	57,324
Short-term notes payable	2,200,000
Current portion of accrued severance	21,721
Current portion of long-term debt	1,550,000
	<hr/>
Total current liabilities	7,341,881
Noncurrent liabilities	
Accrued interest payable	47,618
Accrued severance payable	21,721
Noncurrent portion of long-term debt	59,005,141
	<hr/>
Total noncurrent liabilities	59,074,480
	<hr/>
TOTAL LIABILITIES	66,416,361
NET ASSETS	
Invested in capital assets, net of related debt	(2,135,358)
Restricted for debt service	207,799
Unrestricted	3,259,749
	<hr/>
TOTAL NET ASSETS	\$ 1,332,190
	<hr/>

See accompanying notes to financial statements.

Charlotte Public Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 15,828,315	\$ 28,421	\$ 1,405,689	\$ -	\$ (14,394,205)
Supporting services	8,700,516	28,651	363,809	27,261	(8,280,795)
Community services	1,134,590	690,938	94,836	141,654	(207,162)
Food Service	1,077,749	621,975	517,188	-	61,414
Athletics	571,740	179,104	-	16,248	(376,388)
Interest on long-term debt	3,022,935	-	-	-	(3,022,935)
Other	689,027	-	-	-	(689,027)
Unallocated depreciation	2,517,442	-	-	-	(2,517,442)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 33,542,314</u>	<u>\$ 1,549,089</u>	<u>\$ 2,381,522</u>	<u>\$ 185,163</u>	(29,426,540)
General Revenues					
Property taxes					6,353,926
State school aid - unrestricted					21,098,630
Investment earnings					165,592
Special Education county allocation					251,506
Miscellaneous					<u>137,970</u>
TOTAL GENERAL REVENUES					<u>28,007,624</u>
CHANGE IN NET ASSETS					(1,418,916)
Net assets, beginning of year					<u>2,751,106</u>
Net assets, end of year					<u>\$ 1,332,190</u>

See accompanying notes to financial statements.

Charlotte Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,733,974	\$ 1,067,347	\$ 4,801,321
Investments	124,715	-	124,715
Accounts receivable	24,028	4,119	28,147
Taxes receivable	52,404	69,871	122,275
Due from other funds	232,651	223,597	456,248
Due from other governmental units	4,164,182	8,726	4,172,908
Inventories	8,805	13,087	21,892
Prepays	55,810	1,700	57,510
TOTAL ASSETS	\$ 8,396,569	\$ 1,388,447	\$ 9,785,016
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 153,716	\$ 24,954	\$ 178,670
Accrued payroll	1,414,804	16,992	1,431,796
Other accrued liabilities	976,338	16,147	992,485
Due to other funds	149,115	307,133	456,248
Due to other governmental units	473,558	-	473,558
Deferred revenue	45,344	11,980	57,324
Short-term notes payable	2,200,000	-	2,200,000
TOTAL LIABILITIES	5,412,875	377,206	5,790,081
FUND BALANCE			
Reserved for:			
Inventories and prepaids	64,615	14,787	79,402
Debt service	-	691,744	691,744
Unreserved			
Designated for:			
Capital projects	-	82,123	82,123
Other purposes	671,111	-	671,111
Undesignated, reported in:			
General fund	2,247,968	-	2,247,968
Special revenue funds	-	222,587	222,587
TOTAL FUND BALANCE	2,983,694	1,011,241	3,994,935
TOTAL LIABILITIES AND FUND BALANCE	\$ 8,396,569	\$ 1,388,447	\$ 9,785,016

See accompanying notes to financial statements.

Charlotte Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH
THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds **\$ 3,994,935**

Amounts reported for the governmental activities in the statement of net assets are different because:

Noncurrent assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 80,113,039	
Accumulated depreciation is	<u>(22,136,186)</u>	
	57,976,853	
 Deferred charges, net of amortization	 <u>442,930</u>	 58,419,783

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Deferred amounts on refunding	1,233,893	
Bonds and loans payable	(61,789,034)	
Accrued interest payable	(483,945)	
Severance pay	<u>(43,442)</u>	<u>(61,082,528)</u>

Net assets of governmental activities **\$ 1,332,190**

See accompanying notes to financial statements.

Charlotte Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 3,529,546	\$ 4,960,510	\$ 8,490,056
State sources	21,992,466	45,815	22,038,281
Federal sources	607,298	471,373	1,078,671
TOTAL REVENUES	26,129,310	5,477,698	31,607,008
EXPENDITURES			
Current			
Instruction	15,828,315	-	15,828,315
Supporting services	8,954,074	-	8,954,074
Community service	961,635	-	961,635
Food service	-	1,077,749	1,077,749
Athletics	-	571,740	571,740
Performing arts	-	172,955	172,955
Debt service			
Principal retirement	-	1,475,000	1,475,000
Interest, fiscal and other charges	-	2,744,671	2,744,671
Capital outlay	-	507,331	507,331
TOTAL EXPENDITURES	25,744,024	6,549,446	32,293,470
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	385,286	(1,071,748)	(686,462)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	77,881	330,582	408,463
Bond and loan proceeds	-	586,165	586,165
County special education allocation	251,506	-	251,506
Payments from other governments	242,742	-	242,742
Other financing sources	22,142	-	22,142
Transfers to other funds	(330,582)	(77,881)	(408,463)
Payments to other districts	(588,534)	-	(588,534)
Other financing uses	(100,493)	-	(100,493)
TOTAL OTHER FINANCING SOURCES (USES)	(425,338)	838,866	413,528
NET CHANGE IN FUND BALANCES	(40,052)	(232,882)	(272,934)
Fund balances, beginning of year	3,023,746	1,244,123	4,267,869
Fund balances, end of year	\$ 2,983,694	\$ 1,011,241	\$ 3,994,935

See accompanying notes to financial statements.

Charlotte Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds **\$ (272,934)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	766,428	
Depreciation expense	(2,517,442)	
Excess of depreciation expense over capital outlay		(1,751,014)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Net effect of amortization on deferred costs and other deferred amounts	(77,990)	
Bond principal retirement	1,475,000	
Bond and loan proceeds (including SBLF interest)	(840,307)	
Excess of bond principal retirement over bond proceeds		556,703

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	53,868	
(Increase) in accrued severance pay	(5,539)	
		48,329

Change in net assets of governmental activities **\$ (1,418,916)**

See accompanying notes to financial statements.

Charlotte Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,615	\$ 117,565
Investments	46,987	43,000
TOTAL ASSETS	<u>\$ 57,602</u>	<u>\$ 160,565</u>
LIABILITIES		
Due to individuals		
High School	\$ -	\$ 96,377
Middle School	-	53,555
Galewood Elementary	-	765
Parkview Elementary	-	170
Washington Elementary	-	7,687
Weymouth Elementary	-	2,011
TOTAL LIABILITIES	-0-	<u>\$ 160,565</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 57,602</u>	

See accompanying notes to financial statements.

Charlotte Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2007

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	
Interest	\$ 7,612
DEDUCTIONS	
Other supporting services	<u>27,703</u>
CHANGE IN NET ASSETS	(20,091)
Net assets - beginning of year	<u>77,693</u>
Net assets - end of year	<u><u>\$ 57,602</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Charlotte Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Charlotte Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

Investments during the year consisted of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. Of the total amount of \$4,172,908 due from other governmental units, \$3,712,121 consists of State Aid and the remaining \$460,787 from other governmental grants.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 except for new computers, printers, data projectors and televisions which have no cost threshold and all new classrooms (recorded at total content cost) and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	15 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	7 - 25 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2007, and anticipated State Aid is expected to be sufficient to cover this commitment.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due on May 15, 2003, 2004, 2005, and 2007, and a portion of the payment that is due on May 15, 2008, is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2010.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7.59 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

15. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in September 2006 and February 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$2,054,695 and the bank balance was \$2,285,763, of which \$451,643 was covered by federal depository insurance. The balance of \$1,834,120 was uninsured and uncollateralized. The District had \$700 cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUEDInvestments

As of June 30, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (Days)</u>
Uncategorized - Pooled investment funds			
First American Treasury Money Market Fund	\$ 98,706	\$ 98,706	N/A
Dreyfus Government Cash Management Fund	<u>2,990,102</u>	<u>2,990,102</u>	N/A
	<u>\$ 3,088,808</u>	<u>\$ 3,088,808</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Dreyfus Government Cash Management Fund and First American Treasury Money Market Fund were not rated by NRSRO's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2007, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 4,801,321	\$ 128,180	\$ 4,929,501
Investments - current	<u>124,715</u>	<u>89,987</u>	<u>214,702</u>
	<u>\$ 4,926,036</u>	<u>\$ 218,167</u>	<u>\$ 5,144,203</u>

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated				
Land	\$ 220,496	\$ -	\$ -	\$ 220,496
Capital assets being depreciated				
Buildings and additions	66,676,423	380,594	-	67,057,017
Equipment and furniture	8,020,823	181,387	144,317	8,057,893
Vehicles	2,186,014	204,447	531,073	1,859,388
Other capital equipment	<u>2,918,245</u>	<u>-</u>	<u>-</u>	<u>2,918,245</u>
Subtotal of capital assets being depreciated	79,801,505	766,428	675,390	79,892,543
Less accumulated depreciation for:				
Buildings and additions	(11,905,747)	(1,680,505)	-	(13,586,252)
Equipment and furniture	(4,728,792)	(491,846)	(144,317)	(5,076,321)
Vehicles	(1,791,841)	(120,884)	(531,073)	(1,381,652)
Other capital equipment	<u>(1,867,754)</u>	<u>(224,207)</u>	<u>-</u>	<u>(2,091,961)</u>
Subtotal	<u>(20,294,134)</u>	<u>(2,517,442)</u>	<u>(675,390)</u>	<u>(22,136,186)</u>
Net capital assets being depreciated	<u>59,507,371</u>	<u>(1,751,014)</u>	<u>-0-</u>	<u>57,756,357</u>
Capital assets, net	<u>\$ 59,727,867</u>	<u>\$(1,751,014)</u>	<u>\$ -0-</u>	<u>\$ 57,976,853</u>

Total depreciation expense of \$2,517,442 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: SHORT-TERM NOTES

On August 19, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of \$2,000,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which had a net outstanding balance of \$2,000,000 at June 30, 2006, was paid, including accrued interest, when it was due August 18, 2006.

On August 18, 2006, the District issued a short-term State School Aid Anticipation Note in the amount of \$2,200,000 for the purpose of funding operating expenditures until the 2007 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$2,270,827 at June 30, 2007, is reported in the General Fund under the caption short-term notes payable and the applicable accrued interest under the caption other accrued liabilities. The outstanding balance is due August 20, 2007.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
2005 Refunding Bonds	\$33,630,000	\$ -	\$ 75,000	\$33,555,000	\$ 75,000
1999 School Buildings and Site General Obligation Bonds	2,700,000	-	850,000	1,850,000	900,000
2002 School Buildings and Site General Obligation Bonds	13,365,000	-	550,000	12,815,000	575,000
2006 Refunding Bonds	7,500,000	-	-	7,500,000	-
1998 Durant Resolution Bonds	275,091	-	-	275,091	-
Michigan School Bond Loans					
Principal and interest	4,953,636	840,307	-	5,793,943	-
Severance Pay	<u>37,903</u>	<u>5,539</u>	<u>-</u>	<u>43,442</u>	<u>21,721</u>
	62,461,630	845,846	1,475,000	61,832,476	1,571,721
Less deferred amounts on refunding	<u>1,289,979</u>	<u>-</u>	<u>56,086</u>	<u>1,233,893</u>	<u>56,086</u>
Total	<u>\$61,171,651</u>	<u>\$ 845,846</u>	<u>\$ 1,418,914</u>	<u>\$60,598,583</u>	<u>\$ 1,515,635</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$33,705,000 Refunding Bonds dated May 4, 2005, due in annual installments ranging from \$75,000 to \$2,185,000 through May 1, 2029, with interest ranging from 3.00 to 5.00 percent, payable semi-annually.	\$ 33,555,000
\$40,660,000 School Buildings and Site General Obligation Bonds dated July 13, 1999, due in annual installments ranging from \$900,000 to \$950,000 through May 1, 2009, with interest of 5.25 percent, payable semi-annually.	1,850,000
\$22,175,000 School Buildings and Site General Obligation Bonds dated March 1, 2002, due in annual installments ranging from \$365,000 to \$1,200,000 through May 1, 2023, with interest ranging from 4.30 to 5.00 percent, payable semi-annually.	12,815,000
\$7,500,000 Refunding Bonds dated March 1, 2006, due in annual installments ranging from \$50,000 to \$1,660,000 through May 1, 2027, with interest ranging from 4.00 to 4.25 percent, payable semi-annually.	<u>7,500,000</u>
	<u>\$ 55,720,000</u>

Resolution Bonds

\$465,889 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$24,750 to \$107,760, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.	<u>\$ 275,091</u>
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NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUEDMichigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 4.039 to 5.04863 percent.

The School District borrowed \$586,165 in principal during this fiscal year and an additional \$254,142 accrued in interest payable. The balances at June 30, 2007 are as follows:

Principal balance	\$ 5,022,744
Interest balance	<u>771,199</u>
	<u>\$ 5,793,943</u>

Advance Refunding - Prior

On March 1, 2006 the District defeased the portion of the 2002 School Building and Site Bonds, which are due and payable May 1, 2024 through May 1, 2027. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2006 Refunding Bonds in the amount of \$7,500,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2024 through May 1, 2027 for the 2002 School Building and Site Bonds in the amount of \$7,010,000 are considered defeased.

On May 4, 2005 the District defeased the portion of the 1999 School Building and Site Bonds, which are due and payable May 1, 2010 through May 1, 2029. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2005 Refunding Bonds in the amount of \$33,705,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2010 through May 1, 2029 for the 1999 School Building and Site Bonds in the amount of \$33,350,000 are considered defeased.

Severance Pay

In recognition of services to the District, a severance payment is made to eligible administrators with at least ten (10) years of service. Eligible administrators will be paid up to a maximum of ninety-five days of accumulated sick leave at a rate of \$70 per day.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2007 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUED

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2007, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 19,950	\$ 20,405	\$ 40,355
Payroll taxes	<u>1,526</u>	<u>1,561</u>	<u>3,087</u>
	<u>\$ 21,476</u>	<u>\$ 21,966</u>	<u>\$ 43,442</u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ -	\$ 1,550,000	\$ 2,579,558
2009	25,928	6,789	1,630,000	2,500,564
2010	159,672	60,144	1,700,000	2,427,101
2011	28,455	4,261	1,785,000	2,359,613
2012	29,809	2,906	1,875,000	2,284,281
2013-2017	31,227	1,487	10,820,000	10,057,196
2018-2022	-	-	14,155,000	7,059,443
2023-2027	-	-	17,850,000	3,365,701
2028-2029	<u>-</u>	<u>-</u>	<u>4,355,000</u>	<u>218,125</u>
	<u>\$ 275,091</u>	<u>\$ 75,587</u>	<u>\$55,720,000</u>	<u>\$32,851,582</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have not financial impact on Charlotte Public Schools in the future.

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007 are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 232,651</u>
Due to nonmajor governmental funds from:	
General fund	\$ 149,115
Nonmajor governmental funds	<u>74,482</u>
	<u>\$ 223,597</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ <u>77,881</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ <u>330,582</u>

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007 was \$15,607,449 of which \$11,748,833 was for members who have elected the MIP option; the District's total payroll was \$15,591,482.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007 the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2007	\$ 455,739	\$ 2,727,808	\$ 3,183,547
2006	437,672	2,453,088	2,890,760
2005	442,204	2,261,249	2,703,453

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2007	4.0%	17.5%
2006	4.0	16.0
2005	4.0	14.4

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2007:

General Fund	
Reserved for inventories and prepaids	\$ <u>64,615</u>
Nonmajor governmental funds	
Reserved for inventories and prepaids	\$ 14,787
Reserved for debt service	<u>691,744</u>
	\$ <u>706,531</u>

The following are the fund balance designations as of June 30, 2007:

General fund	
Designated for other purposes	
Technology replacement	\$ 600,000
Child care	<u>71,111</u>
	\$ <u>671,111</u>
Nonmajor governmental Funds	
Designated for capital projects	\$ <u>82,123</u>

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for the unrestricted purposes. The following is the net asset restriction as of June 30, 2007:

Governmental activities	
Restricted for debt service	\$ <u>207,799</u>

NOTE K: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the budgetary comparison schedules, the District's budgeted expenditures in the General Fund have been adopted and shown at the functional classification level. Budgeted expenditures for Special Revenue Funds have not been presented.

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Added needs	\$ 3,974,426	\$ 3,990,233	\$ 15,807
Transportation	1,369,315	1,397,730	28,415
Other financing uses			
Payments to other districts	564,015	588,534	24,519
Other transactions	56,043	100,493	44,450
Nonmajor governmental funds			
Performing Arts (Special Revenue) fund	186,168	191,175	5,007

NOTE L: FLEXIBLE BENEFITS PLAN

In February 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, who are salaried or hourly and scheduled to twenty (20) hours or more each week, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by Charlotte Public Schools

NOTE M: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE M: RISK MANAGEMENT - CONTINUED

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE N: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Charlotte Public Schools, a nonplaintiff District, was awarded \$931,778 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE O: BONDED CONSTRUCTION FUNDS

The Capital Project Funds of the District include the capital projects activities funded in part by the Durant Resolution Bonds dated November 15, 1998, the 1999 Building and Site General Obligation Bonds, and the 2002 Building and Site General Obligation Bonds. The remaining funding for the activities recorded within the Capital Project Funds is funded by local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Funds, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years. The Durant Resolution Bond, 1999 Bond construction, and 2002 Bond construction projects were substantially completed in prior years and their applicable bond audits were done at that time.

NOTE N: SUBSEQUENT EVENT

On August 20, 2007, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$2,700,000 was for the purpose of funding operating expenditures until the fiscal year 2008 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

REQUIRED SUPPLEMENTARY INFORMATION

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 3,211,370	\$ 3,682,466	\$ 3,529,546	\$ (152,920)
State sources	22,630,147	21,744,352	21,992,466	248,114
Federal sources	606,296	649,100	607,298	(41,802)
TOTAL REVENUES	26,447,813	26,075,918	26,129,310	53,392
EXPENDITURES				
INSTRUCTION				
Basic programs				
Preschool	114,423	109,037	107,417	1,620
Elementary	4,513,292	4,508,749	4,532,861	(24,112)
Middle school	3,671,375	3,649,587	3,635,285	14,302
High School	2,897,233	3,008,935	3,001,499	7,436
Youth facility	143,700	161,300	134,970	26,330
Class size reduction	104,864	49,820	50,580	(760)
Other basic programs	246,108	240,775	232,021	8,754
Total basic programs	11,690,995	11,728,203	11,694,633	33,570
Added needs				
Special education	2,685,013	2,613,458	2,650,592	(37,134)
Compensatory education	880,870	836,854	828,826	8,028
Vocational education	543,009	524,114	510,815	13,299
Total added needs	4,108,892	3,974,426	3,990,233	(15,807)
Adult and continuing education	144,855	144,193	143,449	744
TOTAL INSTRUCTION	15,944,742	15,846,822	15,828,315	18,507
SUPPORTING SERVICES				
Student services				
Guidance services	782,321	790,145	780,474	9,671
Health services	12,650	12,650	13,974	(1,324)
Social work services	51,285	53,490	53,552	(62)
Teacher consultants	90,991	84,140	83,872	268
Other pupil services	107,049	128,295	125,353	2,942
Total student services	1,044,296	1,068,720	1,057,225	11,495

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
SUPPORTING SERVICES - CONTINUED				
Instructional staff				
Improvement of instruction	\$ 144,138	\$ 101,770	\$ 64,650	\$ 37,120
Media services	1,033,342	1,105,863	1,082,753	23,110
Supervision and direction of instruction staff	179,642	182,150	177,810	4,340
Director of Special Education	158,146	163,448	158,965	4,483
Other instructional staff	52,790	50,209	51,495	(1,286)
Total instructional staff	1,568,058	1,603,440	1,535,673	67,767
General administration				
Board of education	108,500	114,200	112,837	1,363
Executive administration	243,974	277,661	265,465	12,196
Total general administration	352,474	391,861	378,302	13,559
School administration	1,518,706	1,501,643	1,460,178	41,465
Business				
Fiscal services	332,583	335,504	330,941	4,563
Other business services	81,200	136,600	139,268	(2,668)
Total business	413,783	472,104	470,209	1,895
Operations and maintenance	2,690,752	2,624,714	2,536,717	87,997
Transportation	1,378,304	1,369,315	1,397,730	(28,415)
Other supporting services				
Communication services	55,879	55,962	31,073	24,889
Personnel services	83,751	92,118	86,967	5,151
Total other supporting services	139,630	148,080	118,040	30,040
TOTAL SUPPORTING SERVICES	9,106,003	9,179,877	8,954,074	225,803

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
COMMUNITY SERVICES				
Direction	\$ 68,750	\$ 73,656	\$ 72,839	\$ 817
Community recreation	386,310	434,760	454,378	(19,618)
Childcare	306,355	293,111	287,214	5,897
Nonpublic school services	-	6,125	3,062	3,063
Performing Arts Center	159,994	157,038	144,142	12,896
TOTAL COMMUNITY SERVICES	921,409	964,690	961,635	3,055
TOTAL EXPENDITURES	25,972,154	25,991,389	25,744,024	247,365
EXCESS OF REVENUES OVER EXPENDITURES	475,659	84,529	385,286	300,757
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	121,450	131,450	77,881	(53,569)
County special education allocation	252,000	251,506	251,506	-0-
Payments from other governments	38,420	228,970	242,742	13,772
Other financing sources	20,000	28,000	22,142	(5,858)
Transfers to other funds	(359,202)	(365,263)	(330,582)	34,681
Payments to other districts	(521,040)	(564,015)	(588,534)	(24,519)
Other financing uses	(27,287)	(56,043)	(100,493)	(44,450)
TOTAL OTHER FINANCING (USES)	(475,659)	(345,395)	(425,338)	(79,943)
NET CHANGE IN FUND BALANCE	-0-	(260,866)	(40,052)	220,814
Fund balance, beginning of year	3,023,746	3,023,746	3,023,746	-0-
Fund balance, end of year	<u>\$ 3,023,746</u>	<u>\$ 2,762,880</u>	<u>\$ 2,983,694</u>	<u>\$ 220,814</u>

OTHER SUPPLEMENTARY INFORMATION

Charlotte Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	Special Revenue Funds			Debt
	Food Service	Athletics	Performing Arts	2006 Debt
ASSETS				
Cash and cash equivalents	\$ 315,057	\$ 81,385	\$ 82,943	\$ 85,204
Accounts receivable	4,119	-	-	-
Taxes receivable	-	-	-	1,829
Due from other funds	-	-	-	12,667
Due from other governmental units	8,726	-	-	-
Inventories	13,087	-	-	-
Prepays	-	-	1,700	-
TOTAL ASSETS	\$ 340,989	\$ 81,385	\$ 84,643	\$ 99,700
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 23,496	\$ 26	\$ -
Accrued payroll	6,701	10,291	-	-
Other accrued liabilities	10,806	2,613	1,349	85
Due to other funds	168,102	-	34,279	1,686
Deferred revenue	1,130	-	10,850	-
TOTAL LIABILITIES	186,739	36,400	46,504	1,771
FUND BALANCES				
Reserved for				
Inventories and prepaids	13,087	-	1,700	-
Debt service	-	-	-	97,929
Unreserved				
Designated for:				
Capital projects	-	-	-	-
Undesignated, reported in				
Special revenue funds	141,163	44,985	36,439	-
TOTAL FUND BALANCES	154,250	44,985	38,139	97,929
TOTAL LIABILITIES AND FUND BALANCES	\$ 340,989	\$ 81,385	\$ 84,643	\$ 99,700

Service Funds			Capital Project Funds		Total
2005 Debt	2002 Debt	1999 Debt	2002 Bond Projects	1999 Bond Projects	
\$ 258,472	\$ 74,406	\$ 71,174	\$ 98,706	\$ -	\$ 1,067,347
-	-	-	-	-	4,119
10,919	18,996	38,127	-	-	69,871
49,755	106,511	54,664	-	-	223,597
-	-	-	-	-	8,726
-	-	-	-	-	13,087
-	-	-	-	-	1,700
<u>\$ 319,146</u>	<u>\$ 199,913</u>	<u>\$ 163,965</u>	<u>\$ 98,706</u>	<u>\$ -0-</u>	<u>\$ 1,388,447</u>
\$ -	\$ -	\$ -	\$ 1,432	\$ -	\$ 24,954
-	-	-	-	-	16,992
491	436	367	-	-	16,147
87,217	408	290	15,151	-	307,133
-	-	-	-	-	11,980
87,708	844	657	16,583	-0-	377,206
-	-	-	-	-	14,787
231,438	199,069	163,308	-	-	691,744
-	-	-	82,123	-	82,123
-	-	-	-	-	222,587
<u>231,438</u>	<u>199,069</u>	<u>163,308</u>	<u>82,123</u>	<u>-0-</u>	<u>1,011,241</u>
<u>\$ 319,146</u>	<u>\$ 199,913</u>	<u>\$ 163,965</u>	<u>\$ 98,706</u>	<u>\$ -0-</u>	<u>\$ 1,388,447</u>

Charlotte Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year ended June 30, 2007

	Special Revenue Funds			Debt
	Food Service	Athletics	Performing Arts	2006 Debt
REVENUES				
Local sources	\$ 630,677	\$ 195,938	\$ 229,032	\$ 246,573
State sources	45,815	-	-	-
Federal sources	471,373	-	-	-
TOTAL REVENUES	1,147,865	195,938	229,032	246,573
EXPENDITURES				
Current				
Food service	1,077,749	-	-	-
Athletics	-	571,740	-	-
Performing arts	-	-	172,955	-
Debt service				
Principal retirement	-	-	-	-
Interest, fiscal and other charges	-	-	-	357,517
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	1,077,749	571,740	172,955	357,517
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	70,116	(375,802)	56,077	(110,944)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	330,582	-	-
Bond and loan proceeds	-	-	-	-
Transfers to other funds	(59,661)	-	(18,220)	-
TOTAL OTHER FINANCING SOURCES (USES)	(59,661)	330,582	(18,220)	-
NET CHANGE IN FUND BALANCES	10,455	(45,220)	37,857	(110,944)
Fund balances, beginning of year	143,795	90,205	282	208,873
Fund balances, end of year	<u>\$ 154,250</u>	<u>\$ 44,985</u>	<u>\$ 38,139</u>	<u>\$ 97,929</u>

Service Funds			Capital Project Funds		Total
2005 Debt	2002 Debt	1999 Debt	2002 Bond Projects	1999 Bond Projects	
\$ 1,383,317	\$ 1,228,317	\$ 1,037,044	\$ 7,913	\$ 1,699	\$ 4,960,510
-	-	-	-	-	45,815
-	-	-	-	-	471,373
1,383,317	1,228,317	1,037,044	7,913	1,699	5,477,698
-	-	-	-	-	1,077,749
-	-	-	-	-	571,740
-	-	-	-	-	172,955
75,000	550,000	850,000	-	-	1,475,000
1,614,439	630,606	142,109	-	-	2,744,671
-	-	-	297,922	209,409	507,331
1,689,439	1,180,606	992,109	297,922	209,409	6,549,446
(306,122)	47,711	44,935	(290,009)	(207,710)	(1,071,748)
-	-	-	-	-	330,582
493,254	73,562	19,349	-	-	586,165
-	-	-	-	-	(77,881)
493,254	73,562	19,349	-	-	838,866
187,132	121,273	64,284	(290,009)	(207,710)	(232,882)
44,306	77,796	99,024	372,132	207,710	1,244,123
<u>\$ 231,438</u>	<u>\$ 199,069</u>	<u>\$ 163,308</u>	<u>\$ 82,123</u>	<u>\$ -0-</u>	<u>\$ 1,011,241</u>

Charlotte Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2007

	<u>Lundberg</u>	<u>Christine Wonch</u>	<u>Scholarships</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,397	\$ 330	\$ 7,888	\$ 10,615
Investments	<u>-</u>	<u>15,987</u>	<u>31,000</u>	<u>46,987</u>
TOTAL ASSETS	<u>\$ 2,397</u>	<u>\$ 16,317</u>	<u>\$ 38,888</u>	<u>\$ 57,602</u>
NET ASSETS				
Held in trust for private purposes	<u>\$ 2,397</u>	<u>\$ 16,317</u>	<u>\$ 38,888</u>	<u>\$ 57,602</u>

Charlotte Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2007

	<u>Lundberg</u>	<u>Christine Wonch</u>	<u>Scholarships</u>	<u>Total</u>
ADDITIONS				
Investment earnings				
Interest	\$ 5,688	\$ 693	\$ 1,231	\$ 7,612
DEDUCTIONS				
Other supporting services	<u>27,703</u>	<u>-</u>	<u>-</u>	<u>27,703</u>
CHANGE IN NET ASSETS	(22,015)	693	1,231	(20,091)
Net assets - beginning of year	<u>24,412</u>	<u>15,624</u>	<u>37,657</u>	<u>77,693</u>
Net assets - end of year	<u>\$ 2,397</u>	<u>\$ 16,317</u>	<u>\$ 38,888</u>	<u>\$ 57,602</u>

OTHER FINANCIAL INFORMATION

Charlotte Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING

Year Ended June 30, 2007

	Maturity Date	Interest Rate	Interest	Principal	Total
GENERAL OBLIGATION BONDS					
2002 School Building and Site Bonds, dated March 1, 2002					
	May 1, 2008	4.75	\$ 589,812	\$ 575,000	\$ 1,164,812
	May 1, 2009	4.75	561,906	600,000	1,161,906
	May 1, 2010	4.50	533,594	625,000	1,158,594
	May 1, 2011	4.50	504,344	675,000	1,179,344
	May 1, 2012	4.50	473,406	700,000	1,173,406
	May 1, 2013	4.30	441,531	750,000	1,191,531
	May 1, 2014	4.40	408,356	775,000	1,183,356
	May 1, 2015	4.50	373,306	800,000	1,173,306
	May 1, 2016	4.60	336,331	825,000	1,161,331
	May 1, 2017	4.70	296,794	875,000	1,171,794
	May 1, 2018	4.75	254,857	900,000	1,154,857
	May 1, 2019	4.88	209,716	975,000	1,184,716
	May 1, 2020	4.90	160,225	1,050,000	1,210,225
	May 1, 2021	5.00	106,375	1,125,000	1,231,375
	May 1, 2022	5.00	48,250	1,200,000	1,248,250
	May 1, 2023	5.00	9,125	365,000	374,125
			5,307,928	12,815,000	18,122,928
2006 Refunding Bonds, dated March 1, 2006					
	May 1, 2008		306,144	-	306,144
	May 1, 2009		306,144	-	306,144
	May 1, 2010		306,144	-	306,144
	May 1, 2011		306,144	-	306,144
	May 1, 2012		306,144	-	306,144
	May 1, 2013		306,144	-	306,144
	May 1, 2014		306,144	-	306,144
	May 1, 2015		306,144	-	306,144
	May 1, 2016		306,144	-	306,144
	May 1, 2017	4.000	306,144	50,000	356,144
	May 1, 2018	4.000	304,144	50,000	354,144
	May 1, 2019	4.000	302,144	55,000	357,144
	May 1, 2020	4.000	299,944	55,000	354,944
	May 1, 2021	4.000	297,744	55,000	352,744
	May 1, 2022	4.000	295,544	60,000	355,544
	May 1, 2023	4.000	293,144	990,000	1,283,144
	May 1, 2024	4.000	253,544	1,420,000	1,673,544
	May 1, 2025	4.000	196,744	1,510,000	1,706,744
	May 1, 2026	4.125	136,344	1,595,000	1,731,344
	May 1, 2027	4.250	70,550	1,660,000	1,730,550
			5,511,286	7,500,000	13,011,286

Charlotte Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING - CONTINUED

Year Ended June 30, 2007

	Maturity Date	Interest Rate	Interest	Principal	Total
GENERAL OBLIGATION BONDS					
1999 School Building and Site Bonds, dated July 13, 1999					
	May 1, 2008	5.25	\$ 73,501	\$ 900,000	\$ 973,501
	May 1, 2009	5.25	24,938	950,000	974,938
			98,439	1,850,000	1,948,439
2005 Refunding Bonds, dated May 4, 2005					
	May 1, 2008	3.00	1,610,101	75,000	1,685,101
	May 1, 2009	3.50	1,607,576	80,000	1,687,576
	May 1, 2010	3.50	1,587,363	1,075,000	2,662,363
	May 1, 2011	3.50	1,549,125	1,110,000	2,659,125
	May 1, 2012	4.25	1,504,731	1,175,000	2,679,731
	May 1, 2013	4.25	1,453,944	1,215,000	2,668,944
	May 1, 2014	4.50	1,399,326	1,280,000	2,679,326
	May 1, 2015	4.50	1,340,263	1,345,000	2,685,263
	May 1, 2016	5.00	1,274,625	1,415,000	2,689,625
	May 1, 2017	5.00	1,202,000	1,490,000	2,692,000
	May 1, 2018	5.00	1,125,125	1,585,000	2,710,125
	May 1, 2019	5.00	1,044,125	1,655,000	2,699,125
	May 1, 2020	5.00	959,625	1,725,000	2,684,625
	May 1, 2021	5.00	871,625	1,795,000	2,666,625
	May 1, 2022	5.00	780,000	1,870,000	2,650,000
	May 1, 2023	5.00	684,875	1,935,000	2,619,875
	May 1, 2024	5.00	586,375	2,005,000	2,591,375
	May 1, 2025	5.00	484,375	2,075,000	2,559,375
	May 1, 2026	5.00	379,000	2,140,000	2,519,000
	May 1, 2027	5.00	271,625	2,155,000	2,426,625
	May 1, 2028	5.00	163,500	2,170,000	2,333,500
	May 1, 2029	5.00	54,625	2,185,000	2,239,625
			21,933,929	33,555,000	55,488,929
RESOLUTION BONDS					
1998 Durant Resolution Bond, dated November 15, 1998					
	May 15, 2008	4.76	-	-	-0-
	May 15, 2009	4.76	6,789	25,928	32,717
	May 15, 2010	4.76	60,144	159,672	219,816
	May 15, 2011	4.76	4,261	28,455	32,716
	May 15, 2012	4.76	2,906	29,809	32,715
	May 15, 2013	4.76	1,487	31,227	32,714
			75,587	275,091	350,678
TOTAL BONDED DEBT OUTSTANDING			<u>\$ 32,927,169</u>	<u>\$ 55,995,091</u>	<u>\$ 88,922,260</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2007, which collectively comprise Charlotte Public Schools' basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlotte Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2007-1 BUDGETS

Condition: As noted in the financial statements, four (4) minor activities in the General Fund and the Performing Arts (Special Revenue) Fund in total slightly exceeded the amounts appropriated. While in total these overages did not appear to be material to the financial statements as a whole, they were still noted budget overages that new professional standards require us to report on.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The District had minor instances of budgetary noncompliance relative to State law in the areas where the overages occurred.

Recommendation: We recommend the District continue to do the extensive amount of work that is already being done and continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District employs regular oversight procedures to assure there is budget compliance with board approved budgets. These procedures will continue using a cross-checking and oversight model by multiple administrative and support personnel. Each department is charged with the responsibility of budget compliance. For the year ended June 30, 2007, the District experienced many favorable budget variances that substantially offset any minor budget expenditure variances. Both the General Fund and Performing Arts (Special Revenue) Fund performed beyond budget expectations where total revenues versus total expenditures are concerned. The overall financial picture of the District at June 30, 2007 exceeded the budget projections for financial performance due to the ongoing tightening of school budgets resulting from the uncertainty of state school funding. The District has remained financially stable due to strong board and management oversight as well as excellent cooperation from all school departments.

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the Board of Education of Charlotte Public Schools, others within the County, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 15, 2007

Charlotte Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2007

Charlotte Public Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Charlotte Public Schools
Charlotte, Michigan

Compliance

We have audited the compliance of Charlotte Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Charlotte Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Charlotte Public Schools' management. Our responsibility is to express an opinion on Charlotte Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Charlotte Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Charlotte Public Schools' compliance with those requirements.

In our opinion, Charlotte Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending June 30, 2007.

Internal Control Over Compliance

The management of Charlotte Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Charlotte Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charlotte Public School's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated October 15, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Charlotte Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Charlotte Public Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 15, 2007

Charlotte Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I	84.010		
2005-06 - Part A		0515300506	\$ 1,926
2005-06 - Part A		0615300506	337,331
2005-06 - Part D		0617000506	24,297
2006-07 - Part D		0717000607	35,338
2006-07 - Part D		0617000607	24,297
2006-07 - Part A		0615300607	2,081
2006-07 - Part A		0715300607	308,853
			<u>734,123</u>
Title V LEA Allocation	84.298		
2006-07 Part A Innovative		0702500607	695
2006-07 Part A Innovative		0602500607	1,160
			<u>1,855</u>
Technology Literacy Challenge Grants	84.318		
2005-06 Ed Tech - Formula Grant		0642900506	6,293
2006-07 Ed Tech - Formula Grant		0642900607	2,909
2006-07 Ed Tech - Formula Grant		0742900607	3,170
			<u>12,372</u>
Improving Teacher Quality	84.367		
2005-06		0605200506	145,270
2006-07		0605200607	10,471
2006-07		0705200607	143,203
			<u>298,944</u>
Passed Through State Department of Education and Pottersville Public Schools			
Education for Homeless Children & Youth	84.196		
2006-07		0723200607	1,081
Passed Through State Department of Education and Eaton Intermediate School District (EISD)			
Special Education Grants to States			
IDEA	84.027		
2005-06		8115	1,260
2005-06		80500604450	75,000
2006-07		N/A	76,328
Least Restrictive Environment			
2006-07		N/A	3,363
2005-06		80500604450	4,450
			<u>160,401</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,208,776

Restated (Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ 1,926	\$ 775	\$ 775	\$ -	\$ -0-
335,250	35,414	35,414	-	-0-
12,526	5,877	5,877	-	-0-
-	-	4,100	11,980	7,880
-	-	7,253	11,771	4,518
-	-	952	2,081	1,129
-	-	198,653	301,174	102,521
349,702	42,066	253,024	327,006	116,048
-	-	292	-	(292)
-	-	-	1,110	1,110
-0-	-0-	292	1,110	818
3,383	830	831	1	-0-
-	-	977	2,909	1,932
-	-	852	2,092	1,240
3,383	830	2,660	5,002	3,172
134,800	21,913	21,913	-	-0-
-	-	7,460	10,471	3,011
-	-	74,992	125,092	50,100
134,800	21,913	104,365	135,563	53,111
-	-	-	1,081	1,081
1,260	1,260	1,260	-	-0-
75,000	75,000	75,000	-	-0-
-	-	807	76,328	75,521
-	-	-	3,363	3,363
4,264	4,264	4,264	-	-
80,524	80,524	81,331	79,691	78,884
568,409	145,333	441,672	549,453	253,114

Charlotte Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Pass through State Department of Community Health & EISD Medicaid Administrative Outreach	93.778	N/A	\$ 57,845
U.S. DEPARTMENT OF AGRICULTURE Passed Through State Department of Education School Breakfast Program	10.553	(e)(f)	
2005-06		061970	72,591
2006-07		071970	62,620
			<u>135,211</u>
National School Lunch Program	10.555	(e)(f)	
2005-06		061950,061960	317,741
2006-07		071950,071960	299,097
2005-06		061980	2,215
2006-07		071980	1,756
			<u>620,809</u>
Food Donation ^(a)	10.550		
Entitlement commodities		23030	60,519
Bonus commodities		23030	863
			<u>61,382</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>817,402</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,084,023</u>

<u>Restated (Memo Only) Prior Years' Expenditures</u>	<u>Restated Balance July 1, 2006 Accrued or (Deferred) Revenue</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2007 Accrued or (Deferred) Revenue</u>
\$ -	\$ -	\$ 57,845	57,845	-0-
65,175	-	7,414	7,414	-0-
-	-	62,620	62,620	-0-
65,175	-0-	70,034	70,034	-0-
278,725	-	39,016	39,016	-0-
-	-	299,097	299,097	-0-
2,127	-	88	88	-0-
-	-	1,756	1,756	-0-
280,852	-0-	339,957	339,957	-0-
-	-	60,519	60,519 ^(c)	-0-
-	-	863	863 ^(c)	-0-
-0-	-0-	61,382	61,382	-0-
346,027	-0-	471,373	471,373	-0-
<u>\$ 914,436</u>	<u>\$ 145,333</u>	<u>\$ 970,890</u> (d)	<u>\$ 1,078,671</u> (g)	<u>\$ 253,114</u> ^(b)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Charlotte Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the cumulative payment amounts in the Grants Section Auditors Report and the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from 05/06 to 06/07 as follows:

<u>Grant #</u>	<u>Cumulative Payments Per Report</u>	<u>Less: Prior Year Receipts</u>	<u>Cash Receipts Per Current SEFA</u>
0642900506	\$ 3,384	\$ (2,553)	\$ 831
0617000506	12,526	(6,649)	5,877
0615300506	335,250	(299,836)	35,414
0605200506	134,800	(112,887)	21,913
0602500506	212	(212)	-0-
0515300506	1,926	(1,151)	775

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information Charlotte Public Schools, Michigan as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlotte Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as finding 2007-1.

The District's response to the finding identified in our audit is described in the Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education and administration of Charlotte Public Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 15, 2007

Charlotte Public Schools
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2007-1 BUDGETS

Condition: As noted in the financial statements, four (4) minor activities in the General Fund and the Performing Arts (Special Revenue) Fund in total slightly exceeded the amounts appropriated. While in total these overages did not appear to be material to the financial statements as a whole, they were still noted budget overages that new professional standards require us to report on.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The District had minor instances of budgetary noncompliance relative to State law in the areas where the overages occurred.

Charlotte Public Schools
SCHEDULE OF FINDINGS - CONTINUED
Year Ended June 30, 2007

Section II - Financial Statement Findings - Continued

2007-1 BUDGETS - CONTINUED

Recommendation: We recommend the District continue to do the extensive amount of work that is already being done and continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District employs regular oversight procedures to assure there is budget compliance with board approved budgets. These procedures will continue using a cross-checking and oversight model by multiple administrative and support personnel. Each department is charged with the responsibility of budget compliance. For the year ended June 30, 2007, the District experienced many favorable budget variances that substantially offset any minor budget expenditure variances. Both the General Fund and Performing Arts (Special Revenue) Fund performed beyond budget expectations where total revenues versus total expenditures are concerned. The overall financial picture of the District at June 30, 2007 exceeded the budget projections for financial performance due to the ongoing tightening of school budgets resulting from the uncertainty of state school funding. The District has remained financially stable due to strong board and management oversight as well as excellent cooperation from all school departments.

Section III - Federal Award Findings and Questioned Costs

None

Charlotte Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2007

There were no findings disclosed for the past two years.